

Message Text

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PAGE 01 STATE 012936

20

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INR-10 NSAE-00 INT-08 CIEP-02 OMB-01 L-03 H-03 PA-04

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FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA

C O N F I D E N T I A L STATE 012936

E.O. 11652: GDS

TAGS: EMIN, ID

SUBJ: RENEGOTIATION OF CRUDE OIL PRODUCTION SHARING
CONTRACTS

1. ASAMERA OIL CORP. OFFICER (BROOKS) TOLD DEPT JAN 21 THAT PERTAMINA OFFICIALS TRISULO AND TIRTO UTOMO AND POSSIBLY OTHERS, BUT REPORTEDLY NOT IBNU SUTOWO, HAVE BEEN CALLING IN REPRESENTATIVES OF PRODUCTION SHARING OIL COMPANIES IN PAST TWO WEEKS IN AN EFFORT GET THEIR "REACTIONS" TO A PROPOSED NEW SPLIT OF AFTER-COST OIL ABOVE FIVE DOLLARS A BARREL FROM BASIC 65-35 SPLIT TO NEW 90-10 SPLIT FAVORING PERTAMINA, RETROACTIVE TO JAN. 1. ALTHOUGH TRISULO ASKED FOR COUNTERPROPOSALS, BROOKS' INITIAL IMPRESSION WAS THAT FOREIGN OIL COMPANIES WOULD BE LEFT NO CHOICE BUT TO ACCEPT NEW SHARING ARRANGEMENT. IBNU MET WITH ASAMERA'S ALEXIEV JAN. 11 AND MADE NO MENTION OF THIS PERTAMINA INITIATIVE. PETROMER TREND'S DON TODD TOLD BROOKS THAT CALTEX HAD REPORTEDLY AGREED TO AN 85-15 SPLIT ABOVE FIVE DOLLAR PRICE. UNION OIL ALSO SAID TO BE NOT OBJECTING.

CONFIDENTIAL

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PAGE 02 STATE 012936

2. BOOKS NOTED THAT HIS COMPANY AND UNDOUBTEDLY OTHERS HAD MADE EXPLORATION/FINANCIAL COMMITMENTS ON BASIS NEW PRICE OF 10.80 DOLS AND OPINED THAT IF NEW SHARING ARRANGMENT EVENTUATES, MANY OF THESE INVESTMENTS ARE VERY LIKELY NOT

GOING TO BE MADE. (ASAMERA IS PLANNING INVEST 10 MILLION DOLS IN SECONDARY RECOVERY WORK.) BROOKS SAID VOLUME OF PRODUCTION WAS OBVIOUSLY AS MUCH A FACTOR TO BE CONSIDERED IN CONTRACT RENEGOTIATIONS AS MARKET PRICE FOR CRUDE. CALTEX AND UNION OIL COULD AFFORD ACCEPT SPLIT HEAVILY IN PERTAMINA'S FAVOR; OTHER FOREIGN OIL COMPANIES OPERATING IN INDONESIA ON A SMALLER SCALE COULD NOT.

3. AS ONE OF IBNU'S INITIAL SUPPORTERS IN NORTH SUMATRA, BROOKS WAS SHAKEN BY THIS TURN OF EVENTS, WHICH HE THOUGHT CAME CLOSE TO A REPUDIATION OF CONTRACTS, WHICH WOULD HARM INDONESIA. HE ACCEPTS THAT NEW OIL PRICES MAKE CONTRACT RENEGOTIATION A NECESSITY, HOWEVER. IN THIS CONNECTION, HE MENTIONED ASAMERA'S PLANS FOR A CEMENT PLANT AT LHOKSUMAWE AND FOR PARTICIPATION IN BREWER (HONOLULU) RICE ESTATE PROJECT, AS WAYS IN WHICH COMPANY WOULD RETURN MORE OF ITS EARNINGS FOR INDONESIA'S BENEFIT. HE MUSED THAT THIS INITIATIVE WAS NOT IBNU'S STYLE AND THAT OTHERS MUST BE BEHIND IT.

4. LAWYER FOR MATCO OF TULSA, A PARTICIPANT IN ANOTHER PRODUCTION SHARING CONTRACT, HAS ALSO CALLED DEPT TO PROTEST PERTAMINA'S "UNILATERAL REPUDIATION OF CONTRACT". MATCO GAVE LAWYER TO UNDERSTAND THAT PERTAMINA'S APPROACH WAS TAKE-IT-OR-LEAVE-IT AND COULD NOT BE CHARACTERIZED AS A REQUEST TO RENEGOTIATE A CONTRACT UNDER GREATLY CHANGED CIRCUMSTANCES.

5. ARCO OFFICIAL ALSO MENTIONED THIS NEW DEVELOPMENT IN COURSE OF DEPTOFF'S PHONE CALL ON ANOTHER SUBJECT.

6. EMBASSY'S REPORTING AND COMMENTS REQUESTED. KISSINGER

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